

Kalamazoo County
Employees'
Retirement
System



Years Ended
December 31,
2016 and 2015

Financial
Statements

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Table of Contents

| | <u>Page</u> |
|--|-------------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements | |
| Statements of Fiduciary Net Position | 10 |
| Statements of Changes in Fiduciary Net Position | 11 |
| Notes to Financial Statements | 13 |
| Required Supplementary Information | |
| Schedule of Changes in the System's Net Pension Asset and Related Ratios | 28 |
| Schedule of the Net Pension Asset | 29 |
| Schedule of Contributions | 30 |
| Schedule of Investment Returns | 32 |
| Internal Control and Compliance | |
| Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 35 |



INDEPENDENT AUDITORS' REPORT

June 12, 2017

Kalamazoo County Board of Commissioners
Kalamazoo County Employees' Retirement System
Kalamazoo, Michigan

Report on the Financial Statements

We have audited the financial statements of the *Kalamazoo County Employees' Retirement System* (the "System", a pension trust fund of the County of Kalamazoo, Michigan), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents. The financial statements of the System as of and for the year ended December 31, 2015, were audited by other auditors whose report dated June 15, 2016, expressed an unmodified opinion on those statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Kalamazoo County Employees' Retirement System as of December 31, 2016, and the change in fiduciary net position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Reporting Entity

As discussed in Note 1, the financial statements present only the Kalamazoo County Employees' Retirement System and do not purport to, and do not, present fairly the financial position of the County of Kalamazoo, Michigan as of December 31, 2016, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of pension information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 2017, on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.



MANAGEMENT'S DISCUSSION AND ANALYSIS

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

This section of the Kalamazoo County Employees' Retirement System's (the "System") annual financial statements presents a discussion and analysis of the financial performance of the System for the years ended December 31, 2016 and 2015, with comparable information for the year ended December 31, 2014. This discussion, prepared by management along with the financial statements, should be read in conjunction with, and is qualified in its entirety by, the financial statements. This discussion and analysis is designed to focus on current activities, resulting changes, and current known facts. The financial statements and this discussion are the responsibility of management.

Financial Highlights

- System assets exceeded liabilities at December 31, 2016 by \$207,257,695 (reported as net position). At December 31, 2015, System assets exceeded liabilities by \$192,901,018.
- Additions to net position for the year ended December 31, 2016 were \$24,913,159, which are comprised of contributions of \$1,464,540 and net investment income of \$23,448,619. Contributions of \$1,325,223 were made during the year ended December 31, 2015, however, these were offset by a net investment loss of \$3,399,365.
- Deductions from net position increased 10.7% from 2015 to 2016 (from \$9,533,734 to \$10,556,482), and were comprised primarily of benefit payments to plan members.

Using the Financial Statements

The System's financial report includes two financial statements: the Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position. These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all additions and deductions are taken into account regardless of when cash is received or paid.

The Statements of Fiduciary Net Position present all of the System's assets and liabilities, with the difference between the two reported as net position. Over time, increases and decreases in net position measure whether the System's financial position is improving or deteriorating. The Statements of Changes in Fiduciary Net Position present how the System's net position changed during the most recent year. These two financial statements should be reviewed along with the schedules of pension information (presented after the footnotes as required supplementary information) to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

A summarized comparison of the System's assets, liabilities and net position is as follows:

| | Net Position | | |
|---------------------------|----------------------|-----------------------|-----------------------|
| | 2016 | 2015 | 2014 |
| Assets | | | |
| Cash and cash equivalents | \$ 6,049,513 | \$ 7,332,364 | \$ 5,328,769 |
| Investments | 204,929,687 | 191,455,646 | 203,595,311 |
| Receivables | 968,205 | 1,419,973 | 421,919 |
| Total assets | 211,947,405 | 200,207,983 | 209,345,999 |
| Liabilities | | | |
| Benefits payable | 809,051 | 823,597 | 569,563 |
| Accounts payable | 97,248 | 85,000 | - |
| Purchases of investments | 3,783,411 | 6,398,368 | 4,267,542 |
| Total liabilities | 4,689,710 | 7,306,965 | 4,837,105 |
| Total net position | \$207,257,695 | \$ 192,901,018 | \$ 204,508,894 |

The System's total assets as of December 31, 2016, were \$211,947,405 and were mostly comprised of investments. Total assets increased \$11,739,422 or 5.9% from the prior year primarily due to an increase in investment returns. The System's total assets of December 31, 2015, were \$200,207,983 and were mostly comprised of investments. Total assets decreased \$9,138,016 or 4.4% from 2014 primarily due to a decrease in investment returns.

Total liabilities as of December 31, 2016, were \$4,689,710. Total liabilities decreased \$2,617,255 or 35.8% from the prior year primarily due to changes in the liability for pending purchases of investments. Total liabilities as of December 31, 2015, were \$7,306,965. Total liabilities increased \$2,469,860 or 51.1% from 2014 primarily due to changes in the liability for pending purchases of investments.

The System's assets exceeded its liabilities at the close of fiscal years 2016 and 2015 by \$207,257,695 and \$192,901,018, respectively. Total net position held in trust for pension benefits fluctuated during the years primarily due to net investment income and losses.

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

A summarized comparison of the System's additions, deductions, and changes in net position is as follows:

| | Changes in Net Position | | |
|----------------------------------|-------------------------|-----------------------|-----------------------|
| | Year Ended December 31, | | |
| | 2016 | 2015 | 2014 |
| Additions | | | |
| Contributions | \$ 1,464,540 | \$ 1,325,223 | \$ 1,985,340 |
| Net investment income (loss) | 23,448,619 | (3,399,365) | 13,528,275 |
| Total additions | 24,913,159 | (2,074,142) | 15,513,615 |
| Deductions | | | |
| Benefit payments | 10,252,492 | 9,187,843 | 11,408,049 |
| Administrative expenses | 303,990 | 345,891 | 252,272 |
| Total deductions | 10,556,482 | 9,533,734 | 11,660,321 |
| Change in net position | 14,356,677 | (11,607,876) | 3,853,294 |
| Net position, beginning of year | 192,901,018 | 204,508,894 | 200,655,600 |
| Net position, end of year | \$207,257,695 | \$ 192,901,018 | \$ 204,508,894 |

Additions to Fiduciary Net Position

The reserves needed to finance retirement benefits are accumulated through the collection of contributions and through earnings on investments. Contributions and net investment income for fiscal year 2016 totaled \$24,913,159. This represents an increase of \$26,987,301 from the prior year primarily due to strong investment earnings in the current year, which are expected to fluctuate from year to year based on current market conditions. Fiscal year 2015 System contributions of \$1,325,223 were offset by a net investment loss of \$3,399,365. This represents a decrease of \$17,587,757 from 2014, and is primarily due to an overall investment loss in 2015.

Deductions from Net Position

The primary expenses of the System include the payment of pension benefits to members and beneficiaries and the cost of administering the System. Total deductions for the year ended December 31, 2016 were \$10,556,482, an increase of \$1,022,748 from the prior year. Total deductions for the year ended December 31, 2015 were \$9,533,734, a decrease of \$2,126,587 from the prior year.

Differences in benefit payments may occur for various reasons, but are primarily related to the number of new retirees receiving benefits and whether new retirees elect to receive monthly payments or lump sum distributions. Pension benefit payments increased by \$1,064,649 or 11.6% in 2016 and decreased by \$2,220,206 or 19.5% in 2015.

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Management's Discussion and Analysis

Economic Factors and Next Year's Budget and Rates

The System's purpose is to provide long-term benefit payments to its members through long-term investing. Through its investment policy, the System has positioned the investment portfolio to achieve this long-term objective.

In addition, to maximize investment returns and preserve fund assets, the System carefully monitors the performance of each of its investment managers and takes the necessary corrective action to ensure acceptable investment results. The additional latitude afforded to public pension plans in the overhaul of Public Act 314 will enable the System to further maximize a long-term investment strategy.

Requests for Financial Information

This financial report is designed to provide the public, citizens, and other interest parties with a general overview of the System's financial position. If you have questions about this report or need additional financial information, contact:

Office of Finance
Kalamazoo County Employees' Retirement System
201 West Kalamazoo Avenue
Kalamazoo, Michigan 49007

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statements of Fiduciary Net Position

| | December 31, | |
|---|-----------------------|-----------------------|
| | 2016 | 2015 |
| Assets | | |
| Cash and cash equivalents | \$ 6,049,513 | \$ 7,332,364 |
| Investments, at fair value: | | |
| U.S. government securities | 24,927,421 | 24,666,985 |
| U.S. agency securities | 4,944,620 | 5,250,889 |
| Corporate obligations | 17,182,954 | 16,664,914 |
| Mortgage-backed funds | 2,231,905 | 1,366,426 |
| Domestic equity mutual funds/collective trust funds | 104,483,967 | 94,043,666 |
| International emerging market mutual funds | 20,358,157 | 18,176,670 |
| International equity mutual funds | 20,677,006 | 19,336,364 |
| Real estate investment trust | 4,033,202 | 6,260,156 |
| Real estate pooled separate account | 6,090,455 | 5,689,576 |
| Receivables: | | |
| Sale of investments | 532,567 | 1,092,901 |
| Interest and dividends | 334,628 | 279,204 |
| Employer contributions | 26,779 | 37,645 |
| Other | 74,231 | 10,223 |
| Total assets | <u>211,947,405</u> | <u>200,207,983</u> |
| Liabilities | | |
| Benefits payable | 809,051 | 823,597 |
| Accounts payable | 97,248 | 85,000 |
| Purchase of investments | 3,783,411 | 6,398,368 |
| Total liabilities | <u>4,689,710</u> | <u>7,306,965</u> |
| Net position restricted for pension benefits | <u>\$ 207,257,695</u> | <u>\$ 192,901,018</u> |

The accompanying notes are an integral part of these basic financial statements.

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Statements of Changes in Fiduciary Net Position

| | For the Year Ending December 31, | |
|--|-------------------------------------|-----------------------|
| | 2016 | 2015 |
| Additions | | |
| Contributions: | | |
| Employer | \$ 1,464,540 | \$ 1,320,723 |
| Employee | - | 4,500 |
| Total contributions | <u>1,464,540</u> | <u>1,325,223</u> |
| Investment income (loss): | | |
| Net appreciation (depreciation) in fair value of investments | 18,559,697 | (8,062,927) |
| Income on mutual funds | 4,173,139 | 3,915,316 |
| Interest and dividends | 1,311,100 | 1,268,122 |
| Income on real estate pooled separate account | 173,014 | 259,944 |
| Total investment income (loss) | <u>24,216,950</u> | <u>(2,619,545)</u> |
| Investment expense | <u>(768,331)</u> | <u>(779,820)</u> |
| Net investment income (loss) | <u>23,448,619</u> | <u>(3,399,365)</u> |
| Total additions | <u>24,913,159</u> | <u>(2,074,142)</u> |
| Deductions | | |
| Benefit payments | 10,252,492 | 9,187,843 |
| Administrative expenses | 303,990 | 345,891 |
| Total deductions | <u>10,556,482</u> | <u>9,533,734</u> |
| Change in net position | 14,356,677 | (11,607,876) |
| Net position, beginning of year | <u>192,901,018</u> | <u>204,508,894</u> |
| Net position, end of year | <u>\$ 207,257,695</u> | <u>\$ 192,901,018</u> |

The accompanying notes are an integral part of these basic financial statements.

This page intentionally left blank.

NOTES TO FINANCIAL STATEMENTS

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

1. SYSTEM DESCRIPTION

The following brief description of the Kalamazoo County Employees' Retirement System (the "System") is provided for general information purposes only. Participants should refer to the plan agreement for more complete information.

The System is a single-employer, defined benefit pension plan, which provides retirement and disability benefits to eligible plan members and beneficiaries. The System was established by the County of Kalamazoo Board of Commissioners and is administered by the Office of Finance of the County of Kalamazoo, Michigan. Accordingly, it is included as a pension trust fund in the County's comprehensive annual financial report. The County of Kalamazoo, Michigan (the "County"), Kalamazoo County Road Commission (the "Road Commission"), and Kalamazoo Community Mental Health and Substance Abuse Services (the "Authority") are participating employers of the System and are required to contribute to the System under state of Michigan statutes. Employees of participating employers holding regular positions, either full-time or part-time of 20 hours or more per week, are included by law in the System. Employees of the Sheriff's Deputy Association, Sheriff's Supervisory Association, certain District Court employees, and Judges elected or appointed after March 31, 1997, are excluded from the plan pursuant to past negotiations.

The System is controlled by laws established by the State of Michigan. Any changes to the plan document must be approved by the County of Kalamazoo Board of Commissioners and subsequently implemented by the County of Kalamazoo Office of Finance.

Eligibility

An eligible employee becomes a member in the System as of his or her date of permanent employment. Participants become 100% vested for benefits after eight years of service. Terminated members vested in the System are eligible for deferred retirement benefits.

The System's membership consisted of the following:

| | December 31, 2016 | | | Total |
|---|-------------------|-----------------|------------|--------------|
| | County | Road Commission | Authority | |
| Retirees and beneficiaries currently receiving benefits | 312 | 36 | 42 | 390 |
| Terminated employees entitled to but not yet receiving benefits | 143 | 6 | 57 | 206 |
| Vested active participants | 313 | 23 | 81 | 417 |
| Nonvested participants | 325 | 18 | 132 | 475 |
| Total membership | 1,093 | 83 | 312 | 1,488 |

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

| | December 31, 2015 | | | Total |
|---|-------------------|-----------------|------------|--------------|
| | County | Road Commission | Authority | |
| Retirees and beneficiaries currently receiving benefits | 312 | 38 | 36 | 386 |
| Terminated employees entitled to but not yet receiving benefits | 130 | 6 | 56 | 192 |
| Vested active participants | 317 | 25 | 75 | 417 |
| Nonvested participants | 332 | 16 | 125 | 473 |
| Total membership | 1,091 | 85 | 292 | 1,468 |

Benefits Provided

Regular retirement benefits begin at age 60 with 8 years or more of service for the Authority and the Road Commission employees, as well as the County employees hired before July 1, 2009. Regular retirement benefits begin at age 65 with eight years or more of service for the County employees hired on or after July 1, 2009. Certain County employees are eligible for normal retirement at age 55 with 25 years of service. Members may retire at age 55 with eight years of service for a reduced benefit.

Deferred members of the County hired before October 1, 2009, deferred members of the Authority hired before February 5, 2013, and all deferred members of the Road Commission, may elect to receive a lump sum benefit at any time before or after reaching the retirement age. All deferred members may receive annuity benefits at the normal or early retirement age.

Benefits are determined at the member's retirement date based on a formula of the member's service credit, final average compensation, and a percentage factor. Service credit is determined by the total number of full or part-time (at least 20 hours per week) years and months of employment. Additional service may be credited for Road Commission employees with military or disability leave. The final average compensation is the average compensation received during the highest 5 consecutive years of the last 10 years of service or all years of service if the employee has less than 10 years of service. The percentage is determined by the participating employers of the System and ranged from 1.7% to 2.5% in 2016 and 2.0% to 2.5% in 2015. Annual benefits are reduced for early retirement or beneficiary benefits. Employees may choose to receive benefits in monthly payments or as a lump sum payment. Lump sum payments for employees hired before October 1, 2009, are calculated using the annual benefit, expected future lifetime, and a discount rate. Lump sum payments are no longer an option available for County employees hired on or after October 1, 2009, and Authority employees hired on or after February 5, 2013. The discount rate shall be the investment return assumption as adopted by the Retirement Investment Committee to be used in the annual actuarial valuation of the System.

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Contributions

Employer Contributions. The System's funding policy provides for periodic employer contributions at actuarially determined rates that are expressed as percentages of annual covered payroll, and are designed to accumulate sufficient assets to pay benefits when due. The contribution rate ranged from 0.00% to 10.56% for the year ended December 31, 2016 and from 0.00% to 10.07% for the year ended December 31, 2015 of projected valuation payroll. The normal cost and amortization payment were determined using an entry-age actuarial funding method. Unfunded actuarial accrued liabilities are being amortized as a level percent-of-payroll over an open period of 10 years.

Employee Contributions. No employee contributions are required for participation in the System. The only contributions recognized are those relating to purchased years of service.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The System's financial statements are prepared on the accrual basis of accounting. Member contributions are recognized in the period in which they are due. The County's contributions are recognized when due and the employer has made a formal commitment to provide them. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Valuation of Investments and Income Recognition

The System's investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Real estate pooled separate accounts are stated primarily at current appraised value, which approximates market. Investments that do not have an established market are reported at estimated fair value.

Dividend income is recognized based on the ex-dividend date, and interest income is recognized on the accrual basis as earned. All realized gains and losses on investments are recognized at the point of sale and are included in investment income. Purchases and sales of investments are recorded as of the tradedate, which is the date when the transaction is initiated.

Use of Estimates

The preparation of the System's financial statements in conformity with generally accepted accounting principles requires management to make significant estimates and assumptions that affect the reported amounts of net position at the date of the financial statements and the actuarial present value of accumulated benefits as of the benefit information date, the changes in net position during the reporting period and, when applicable, the disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Risk and Uncertainties

The System's contributions and the actuarial present value of accumulated benefits are prepared based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Investments are exposed to various risks, such as credit, custodial credit, concentrations, foreign currency fluctuations, and interest rates. Due to uncertainties inherent in the estimations and assumptions process and the level of uncertainty related to changes in these estimates, assumptions and risks in near-term would be material to the financial statements.

Reclassifications

Certain amounts presented for 2015 have been reclassified in order to conform with the current year's presentation.

3. DEPOSITS AND INVESTMENTS

Cash and Cash Equivalents

The System does not maintain any checking or other demand/time deposit accounts. The amounts reported as cash and cash equivalents in the Statements of Fiduciary Net Position are insured by the Securities Investors Protection Act for up to \$500,000 each. The carrying amount of these accounts as of December 31, 2016, was \$6,049,513, of which the insured amount was \$1,000,001. The remaining balance of \$5,049,512 is uninsured and uncollateralized. At December 31, 2015, the System had a deposit balance of \$7,332,364 that was uninsured.

Investments

The System is authorized by the Michigan Public Employees Retirement Systems' Investment Act 314 of 1965, as amended, to invest in stocks, government and corporate securities, mortgages, real estate, and various other instruments, subject to certain limitations. The Kalamazoo County Retirement Investment Committee is responsible for adopting the investment policies and strategies, and retaining/monitoring the various investment managers, trustees, advisors, actuaries and other fiduciaries utilized by the System.

Investment Policy. The System's policy in regard to the allocation of invested assets is established and may be amended by the Kalamazoo County Retirement Investment Committee. The investment policy has been formulated based on consideration of a wide range of policies and describes the prudent investment process that the Board deems appropriate. The System's asset allocation policy as of December 31, 2016 and 2015 is detailed in Note 5.

Rate of Return. For the years ended December 31, 2016 and 2015, the annual money-weighted rate of return on pension plan investments, net of investment expense, was 13.21% and -1.71%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

The System's investments are held in a number of portfolios administered by various investment managers. Following is a summary of the System's investments at fair value, as determined by quoted market price:

| | December 31, | |
|---|--------------------|--------------------|
| | 2016 | 2015 |
| U.S. government securities | \$ 24,927,421 | \$ 24,666,985 |
| U.S. agency securities | 4,944,620 | 5,250,889 |
| Corporate obligations | 17,182,954 | 16,664,914 |
| Mortgage-backed funds | 2,231,905 | 1,366,426 |
| Domestic equity mutual funds/collective trust funds | 104,483,967 | 94,043,666 |
| International emerging market mutual funds | 20,358,157 | 18,176,670 |
| International equity mutual funds | 20,677,006 | 19,336,364 |
| Real estate investment trust | 4,033,202 | 6,260,156 |
| Real estate pooled separate account | 6,090,455 | 5,689,576 |
| | <u>204,929,687</u> | <u>191,455,646</u> |
| Total investments | \$ 204,929,687 | \$ 191,455,646 |

Credit Risk. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's investment policy limits commercial paper to be those at the time of purchase are within the two highest classifications established by not less than two national rating services as determined by the State Treasurer of Michigan. These also must mature no more than 270 days after date of issue. The System requires the average fixed income portfolio quality rating to be an "A" or better. All bonds owned by the System should be rated "BBB" or better by Standard & Poor's or an equivalent rating agency as determined by the State Treasurer of Michigan with the following exception: when bond ratings have dropped below "BBB" after purchase, and when the investment manager deems it economically beneficial, the manager may retain ownership.

The System's investments were rated as follows:

| | December 31, | |
|----------------------------|--------------------|--------------------|
| | 2016 | 2015 |
| Standard & Poor's AAA | \$ 2,336,354 | \$ 30,403,393 |
| Standard & Poor's AA | 2,350,464 | 2,369,032 |
| Standard & Poor's A | 7,263,794 | 6,337,220 |
| Standard & Poor's BBB | 7,238,388 | 7,712,127 |
| Moody's Aaa | 24,095,168 | - |
| Morningstar 4 Stars | - | 55,815,948 |
| Morningstar 3 Stars | - | 63,824,238 |
| Morningstar 2 Stars | - | 18,176,670 |
| Unrated | 6,090,455 | 1,127,442 |
| Not subject to credit risk | 155,555,064 | 5,689,576 |
| | <u>204,929,687</u> | <u>191,455,646</u> |
| Total investments | \$ 204,929,687 | \$ 191,455,646 |

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Custodial Credit Risk. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although uninsured and unregistered, the System's investments are not exposed to custodial credit risk since the securities are held by the counterparty's trust department or agent in the System's name. Short-term investments in money market funds and equity mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book form. As of December 31, 2016 and 2015, the System had no investments exposed to custodial credit risk.

In addition, the System will only conduct business with investment management firms that will: comply with all relevant provisions contained in Act 485 of the Public Acts of 1996 as amended (Michigan Compiled Laws 38.1132 et seq.); support the overall investment policies of the System; understand and accept their designated "role" within the System's investment structure; construct a portfolio of securities that reflect the execution of their assigned investment strategy; and adhere to the guidelines the investment policy statement (as amended). The following criteria are used to evaluate each investment manager's performance: a) achievement of fund objectives as outlined in the investment policy; b) comparisons with other managers, indexes, etc.; c) subjective observations regarding the manager's organization, professionalism, administrative skills, etc.; and d) biannual due diligence meetings.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The State generally limits investments in a single issuer to no more than 5% of the total portfolio assets, with the exception of obligations issued, assumed, or guaranteed by the United States. To minimize concentration of credit risk and increase portfolio diversification, the System places the following additional limits to investments:

- 70% of the portfolio will be invested in common stock with the balance invested in notes, bonds, equity real estate, and short-term securities.
- No more than 5% of portfolio assets at market value will be invested in equity real estate.

The investment portfolio was concentrated as follows:

| Investment Type | Issuer | Percentage of Portfolio | |
|---|----------------|-------------------------|-------|
| | | 2016 | 2015 |
| Collective trust funds | Blackrock Fund | 30.4% | 30.1% |
| Domestic equity mutual fund | Dimensional | 10.3% | 9.5% |
| International emerging market mutual fund | Dimensional | 10.1% | 10.1% |
| International emerging market mutual fund | Dimensional | 9.9% | 9.5% |
| Domestic equity mutual fund | Dimensional | 5.2% | * |
| Domestic equity mutual fund | Dimensional | 5.1% | 5.0% |

* This investment represented less than 5% of the total portfolio in this year.

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Foreign Currency Risk. Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The State permits investments in investment grade, dollar denominated obligations issued in the United States by foreign governments, banks, or corporations. Investments in foreign securities are limited to not exceed more than 20% of the System's assets. It is the System's policy to not purchase foreign investments except those listed in the United States.

| Investment (currency in U.S. dollars) | December 31, | |
|---|----------------------|----------------------|
| | 2016 | 2015 |
| Foreign corporate obligations | \$ 2,965,905 | \$ - |
| International emerging markets mutual funds | 20,358,157 | 18,176,670 |
| International equity mutual funds | 20,677,006 | 19,336,364 |
| Total | \$ 44,001,068 | \$ 37,513,034 |

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair market value of an investment. The System's policy provides for its fixed income portfolio to have a weighted-average duration within 0.05 years of the Lehman Brothers Government/Credit Intermediate Index and the Lehman Brothers Government/Credit Long Index for the respective portfolios. Maturities of the System's investments were as follows:

| | December 31, | |
|--------------------------|-----------------------|-----------------------|
| | 2016 | 2015 |
| Less than 1 year | \$ 1,344,794 | \$ 1,781,074 |
| 1 - 5 years | 21,085,299 | 18,010,362 |
| 6 - 10 years | 5,395,479 | 5,871,316 |
| More than 10 years | 21,461,328 | 22,286,462 |
| No maturity | 155,642,787 | 143,506,432 |
| Total investments | \$ 204,929,687 | \$ 191,455,646 |

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Fair Value Measurement. The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset, as determined by the System's investment advisors. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. These levels are determined by the System's investment manager. These are determined at the fund level based on a review of the investment's class, structure, and what kind of securities are held in the funds. The investment manager will request the information from the fund manager, if necessary. The System had the following recurring fair value measurements as of December 31, 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------------|-----------------------|----------------------|-------------|-----------------------|
| U.S. government securities | \$ - | \$ 24,927,421 | \$ - | \$ 24,927,421 |
| U.S. agency securities | - | 4,944,620 | - | 4,944,620 |
| Corporate obligations | - | 17,182,954 | - | 17,182,954 |
| Mortgage-backed funds | - | 2,231,905 | - | 2,231,905 |
| Domestic equity mutual funds | | | | |
| collective trust funds | 104,483,967 | - | - | 104,483,967 |
| International emerging market | | | | |
| mutual funds | 20,358,157 | - | - | 20,358,157 |
| International equity mutual funds | 20,677,006 | - | - | 20,677,006 |
| Real estate investment trust | 4,033,202 | - | - | 4,033,202 |
| Real estate pooled | | | | |
| separate account | - | 6,090,455 | - | 6,090,455 |
| Total investments | <u>\$ 149,552,332</u> | <u>\$ 55,377,355</u> | <u>\$ -</u> | <u>\$ 204,929,687</u> |

GASB 72 was implemented for the plan year ending December 31, 2016; fair value information for the prior year is not readily available.

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

4. CONTRIBUTIONS

It is the System's policy to fund the actuarial determined pension liability in order for funds to be available when a member retires. The employers are required to contribute a percentage of payroll at an actuarially determined rate. The contribution rate is based on the actuarial assumptions and experiences. Once a group is fully or overfunded, the employer no longer contributes for that group. The employers were required to contribute the following percentages of payroll:

| | 2016 | 2015 |
|--|--------|--------|
| County: | | |
| Airport | 0.00% | 0.00% |
| AS&E/B&G/Parks | 2.14% | 2.86% |
| Head start I | 0.00% | 0.00% |
| Head start II | 0.00% | 0.00% |
| Juvenile court | 10.56% | 10.07% |
| Juvenile home | 1.99% | 0.00% |
| Non-represented | 2.72% | 2.55% |
| Sheriff command | 0.00% | 0.00% |
| FOP | 0.00% | 0.00% |
| Road Commission - all eligible employees | 0.00% | 0.00% |
| Authority: | | |
| Managerial | 9.64% | 9.30% |
| Professional | 2.45% | 1.93% |
| TOPS | 5.44% | 5.80% |

The sheriff command no longer has active members and therefore no contribution rate can be determined based on a percentage of payroll. The County contributed a fixed dollar amount for the sheriff command of \$48,389 and \$42,310 for the years ended December 31, 2016 and 2015, respectively.

The employers' actual contributions were as follows:

| | December 31, 2016 | | |
|----------------------------|-------------------------------|---------------------|---------------------|
| | Annual Required Contributions | Actual | Percent Contributed |
| County | \$ 949,476 | \$ 949,476 | 100.00% |
| Road Commission | - | - | 100.00% |
| Authority | 515,064 | 515,064 | 100.00% |
| Total contributions | \$ 1,464,540 | \$ 1,464,540 | |

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

| | December 31, 2015 | | |
|----------------------------|-------------------------------|---------------------|---------------------|
| | Annual Required Contributions | Actual | Percent Contributed |
| County | \$ 843,226 | \$ 843,226 | 100.00% |
| Road Commission | - | - | 100.00% |
| Authority | 477,497 | 477,497 | 100.00% |
| Total contributions | \$ 1,320,723 | \$ 1,320,723 | |

Plan members may purchase credited service for time served in the military. To purchase credited service for military leave, members pay an amount equal to 5% of the member's annual compensation for each year purchased. Members of the County of Kalamazoo Board of Commissioners electing to participate in the plan must contribute 100% of the actuarial cost annually. Plan members retain the right upon termination to withdraw their contributions plus regular interest, as defined by the System, in lieu of any pension rights they may have. Members may repurchase past service credit for an amount equal to the aggregate amount of contributions the County made at the time of the previous service plus accrued interest from the date of separation to the date of the deposit.

The System maintains a member deposit fund, which is used to accumulate contributions made by plan members and related accrued interest. As detailed in the plan document, the fund is legally required to distribute individual employee contributions and related interest, upon request by a terminated plan member. The balance in the member deposit fund at December 31, 2016 and 2015 is \$484,320 and \$498,256, respectively.

5. NET PENSION ASSET

Net Asset Pension. The components of the net pension asset of the System, and the net pension asset as a percentage of covered payroll were as follows:

| <u>County</u> | December 31, | |
|---|------------------------|------------------------|
| | 2016 | 2015 |
| Proportionate share of total pension liability | \$ 127,779,083 | \$ 125,235,731 |
| Proportionate share of fiduciary net position | 154,643,257 | 144,872,519 |
| Proportionate share of net pension asset | <u>\$ (26,864,174)</u> | <u>\$ (19,636,788)</u> |
| Fiduciary net position as a percentage of total pension liability | 121.02% | 115.68% |
| Covered payroll | <u>\$ 30,382,053</u> | <u>\$ 29,100,398</u> |
| Net pension asset as a percentage of covered payroll | -88.42% | -67.48% |

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

| | December 31, | |
|--|------------------------|------------------------|
| | 2016 | 2015 |
| <u>Road Commission</u> | | |
| Proportionate share of total pension liability | \$ 12,093,922 | \$ 11,962,951 |
| Proportionate share of fiduciary net position | 14,636,538 | 13,838,725 |
| Proportionate share of net pension asset | <u>\$ (2,542,616)</u> | <u>\$ (1,875,774)</u> |
| Fiduciary net position as a percentage of total pension liability | 121.02% | 115.68% |
| Covered payroll | <u>\$ 2,403,555</u> | <u>\$ 2,042,092</u> |
| Net pension asset as a percentage of covered payroll | -105.79% | -91.86% |
| <u>Authority</u> | | |
| Proportionate share of total pension liability | \$ 31,380,491 | \$ 29,555,511 |
| Proportionate share of fiduciary net position | 37,977,900 | 34,189,774 |
| Proportionate share of net pension asset | <u>\$ (6,597,409)</u> | <u>\$ (4,634,263)</u> |
| Fiduciary net position as a percentage of total pension liability | 121.02% | 115.68% |
| Covered payroll | <u>\$ 10,652,479</u> | <u>\$ 10,009,846</u> |
| Net pension asset as a percentage of covered payroll | -61.93% | -46.30% |
| <u>Total System</u> | | |
| Total pension liability | \$ 171,253,496 | \$ 166,754,193 |
| System fiduciary net position | 207,257,695 | 192,901,018 |
| Net pension asset | <u>\$ (36,004,199)</u> | <u>\$ (26,146,825)</u> |
| System fiduciary net position as a percentage of total pension liability | 121.02% | 115.68% |
| Covered payroll | <u>\$ 43,438,087</u> | <u>\$ 41,152,336</u> |
| Net pension asset as a percentage of covered payroll | -82.89% | -63.54% |
| <i>Proportionate Share.</i> The proportionate shares have been developed on the basis of present value future benefits for each employer. This basis reflects the long-term obligation of each employer to the System. The proportionate shares for 2016 and 2015 were as follows: | | |
| | 2016 | 2015 |
| County | 74.614% | 75.102% |
| Road Commission | 7.062% | 7.174% |
| Authority | 18.324% | 17.724% |
| | <u>100.000%</u> | <u>100.000%</u> |

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

Actuarial Assumptions. For 2016, the System's net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. For 2015, the System's net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014.

| | December 31, | |
|--|----------------|----------------|
| | 2016 | 2015 |
| Inflation | 3.50% | 3.50% |
| Salary increases (includes inflation at 3.5%): | | |
| General County | 3.50% to 5.50% | 3.50% to 7.50% |
| Road Commission | 3.50% to 7.23% | 3.50% to 7.20% |
| Community Mental Health Authority | 4.00% to 5.50% | 3.50% to 5.50% |
| Investment rate of return (includes inflation at 2.0%) | 7.50% | 7.50% |

Mortality rates were based on the RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Projection Scale BB.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2009 to December 31, 2013.

Long-term Expected Rate of Return. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's target asset allocation as of December 31, 2016 are summarized in the following table.

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Notes to Financial Statements

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return | Expected Money-Weighted Rate of Return |
|--------------------------------|-------------------|--|--|
| U.S. small cap (manager 1) | 5.00% | 4.60% | 0.23% |
| U.S. small cap (manager 2) | 10.00% | 4.60% | 0.46% |
| International developed equity | 10.00% | 4.10% | 0.41% |
| U.S. large cap (manager 1) | 30.00% | 4.10% | 1.24% |
| U.S. large cap (manager 2) | 5.00% | 4.20% | 0.21% |
| Emerging markets | 10.00% | 6.60% | 0.66% |
| Domestic fixed income | 25.00% | 1.00% | 0.25% |
| Real estate (manager 1) | 2.50% | 2.90% | 0.07% |
| Real estate (manager 2) | 2.50% | 2.90% | 0.07% |
| | <u>100.00%</u> | | |
| Inflation | | | 3.50% |
| Risk factor adjustment | | | 0.40% |
| Investment rate of return | | | 7.50% |

Discount Rate. The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that System contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Asset to Changes in the Discount Rate. The following presents the net pension asset of the System, calculated using the discount rate of 7.50%, as well as what the System's net pension asset would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate:

| | December 31, 2016 | | |
|-------------------|------------------------------|-------------------------------|------------------------------|
| | One Percent Decrease (6.50%) | Current Discount Rate (7.50%) | One Percent Increase (8.50%) |
| Net pension asset | \$ 14,436,364 | \$ 36,004,199 | \$ 54,069,955 |

| | December 31, 2015 | | |
|-------------------|------------------------------|-------------------------------|------------------------------|
| | One Percent Decrease (6.50%) | Current Discount Rate (7.50%) | One Percent Increase (8.50%) |
| Net pension asset | \$ 5,052,020 | \$ 26,146,825 | \$ 43,804,755 |



REQUIRED SUPPLEMENTARY INFORMATION

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information Single-employer Defined Benefit Pension Plan

Schedule of Changes in the System's Net Pension Asset and Related Ratios

| | Years Ended December 31, | | |
|--|--------------------------|-----------------|-----------------|
| | 2016 | 2015 | 2014 |
| Total pension liability | | | |
| Service cost | \$ 3,449,662 | \$ 3,339,511 | \$ 3,629,274 |
| Interest on total pension liability | 12,251,457 | 11,895,347 | 11,540,803 |
| Difference between expected and actual experience | (949,324) | (2,986,458) | - |
| Assumption changes | - | 2,164,854 | - |
| Benefit payments and refunds | (10,252,492) | (9,187,843) | (11,408,049) |
| Net change in total pension liability | 4,499,303 | 5,225,411 | 3,762,028 |
| Total pension liability, beginning of year | 166,754,193 | 161,528,782 | 157,766,754 |
| Total pension liability, end of year | 171,253,496 | 166,754,193 | 161,528,782 |
| Plan fiduciary net position | | | |
| Employer contributions | 1,464,540 | 1,320,723 | 1,985,340 |
| Employee contributions | - | 4,500 | - |
| Pension plan net investment income (loss) | 23,448,619 | (3,399,365) | 13,528,275 |
| Benefit payments and refunds | (10,252,492) | (9,187,843) | (11,408,049) |
| Pension plan administrative expense | (303,990) | (345,891) | (252,272) |
| Net change in plan fiduciary net position | 14,356,677 | (11,607,876) | 3,853,294 |
| Plan fiduciary net position, beginning of year | 192,901,018 | 204,508,894 | 200,655,600 |
| Plan fiduciary net position, end of year | 207,257,695 | 192,901,018 | 204,508,894 |
| Net pension asset | \$ (36,004,199) | \$ (26,146,825) | \$ (42,980,112) |
| Plan fiduciary net position as a percentage of total pension liability | 121.02% | 115.68% | 126.61% |
| Covered payroll | \$ 43,438,087 | \$ 41,152,336 | \$ 41,180,449 |
| Net pension asset as a percentage of covered payroll | -82.89% | -63.54% | -104.37% |

Note: GASB 67 was implemented in 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information Single-employer Defined Benefit Pension Plan

Schedule of the Net Pension Asset

| Total System | | | | | | |
|-------------------------|-------------------------|-----------------------------|-------------------|--|-----------------|--|
| Year Ended December 31, | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Asset | Plan Fiduciary Net Position as Percentage of Total Pension Liability | Covered Payroll | Net Pension Asset as Percentage of Covered Payroll |
| 2016 | \$ 171,253,496 | \$ 207,257,695 | \$ (36,004,199) | 121.02% | \$ 43,438,087 | -82.89% |
| 2015 | 166,754,193 | 192,901,018 | (26,146,825) | 115.68% | 41,152,336 | -63.54% |
| 2014 | 161,528,782 | 204,508,894 | (42,980,112) | 126.61% | 41,180,449 | -104.37% |

| County | | | | | | |
|-------------------------|-------------------------|-----------------------------|-------------------|--|-----------------|--|
| Year Ended December 31, | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Asset | Plan Fiduciary Net Position as Percentage of Total Pension Liability | Covered Payroll | Net Pension Asset as Percentage of Covered Payroll |
| 2016 | \$ 127,779,083 | \$ 154,643,257 | \$ (26,864,174) | 121.02% | \$ 30,382,053 | -88.42% |
| 2015 | 125,235,731 | 144,872,519 | (19,636,788) | 115.68% | 29,100,398 | -67.48% |
| 2014 | 105,940,267 | 134,129,203 | (28,188,936) | 126.61% | 28,124,717 | -100.23% |

| Road Commission | | | | | | |
|-------------------------|-------------------------|-----------------------------|-------------------|--|-----------------|--|
| Year Ended December 31, | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Asset | Plan Fiduciary Net Position as Percentage of Total Pension Liability | Covered Payroll | Net Pension Asset as Percentage of Covered Payroll |
| 2016 | \$ 12,093,922 | \$ 14,636,538 | \$ (2,542,616) | 121.02% | \$ 2,403,555 | -105.79% |
| 2015 | 11,962,951 | 13,838,725 | (1,875,774) | 115.68% | 2,042,092 | -91.86% |
| 2014 | - | - | - | 0.00% | 2,222,722 | 0.00% |

| Authority | | | | | | |
|-------------------------|-------------------------|-----------------------------|-------------------|--|-----------------|--|
| Year Ended December 31, | Total Pension Liability | Plan Fiduciary Net Position | Net Pension Asset | Plan Fiduciary Net Position as Percentage of Total Pension Liability | Covered Payroll | Net Pension Asset as Percentage of Covered Payroll |
| 2016 | \$ 31,380,491 | \$ 37,977,900 | \$ (6,597,409) | 121.02% | \$ 10,652,479 | -61.93% |
| 2015 | 29,555,511 | 34,189,774 | (4,634,263) | 115.68% | 10,009,846 | -46.30% |
| 2014 | 55,588,515 | 70,379,691 | (14,791,176) | 126.61% | 10,833,010 | -136.54% |

Note: GASB 67 was implemented in 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information

Single-employer Defined Benefit Pension Plan

Schedule of Contributions

| Total System | | | | | |
|----------------------------|---|------------------------|--|--------------------|--|
| Year Ended December 31, | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as Percentage of Covered Payroll |
| 2016 | \$ 1,464,540 | \$ 1,464,540 | \$ - | \$ 43,438,087 | 3.37% |
| 2015 | 1,320,723 | 1,320,723 | - | 41,152,336 | 3.21% |
| 2014 | 1,985,340 | 1,985,340 | - | 41,180,449 | 4.82% |

| County | | | | | |
|----------------------------|---|------------------------|--|--------------------|--|
| Year Ended December 31, | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as Percentage of Covered Payroll |
| 2016 | \$ 949,476 | \$ 949,476 | \$ - | \$ 30,382,053 | 3.13% |
| 2015 | 843,226 | 843,226 | - | 29,100,398 | 2.90% |
| 2014 | 1,302,099 | 1,302,099 | - | 28,124,717 | 4.63% |

| Road Commission | | | | | |
|----------------------------|---|------------------------|--|--------------------|--|
| Year Ended December 31, | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as Percentage of Covered Payroll |
| 2016 | \$ - | \$ - | \$ - | \$ 2,403,555 | 0.00% |
| 2015 | - | - | - | 2,042,092 | 0.00% |
| 2014 | - | - | - | 2,222,722 | 0.00% |

| Authority | | | | | |
|----------------------------|---|------------------------|--|--------------------|--|
| Year Ended December 31, | Actuarially Determined Contribution | Actual Contribution | Contribution Deficiency (Excess) | Covered Payroll | Actual Contribution as Percentage of Covered Payroll |
| 2016 | \$ 515,064 | \$ 515,064 | \$ - | \$ 10,652,479 | 4.84% |
| 2015 | 477,497 | 477,497 | - | 10,009,846 | 4.77% |
| 2014 | 683,241 | 683,241 | - | 10,833,010 | 6.31% |

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information

Single-employer Defined Benefit Pension Plan

Notes to Schedule of Contributions

Valuation Date Actuarially determined contribution rates are calculated as of December 31, which is 12 months prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry-age normal |
| Amortization method | Level percentage of payroll, open period |
| Remaining amortization period | 10 years |
| Asset valuation method | Market value with 5-year smoothing |
| Inflation | 3.5% |

| | 2016 | 2015 |
|--|------|------|
|--|------|------|

Salary increases (including inflation):

| | | |
|-----------------|----------------|----------------|
| County | 3.50% to 5.50% | 3.50% to 7.50% |
| Road commission | 3.50% to 7.23% | 3.50% to 7.20% |
| Authority | 4.00% to 5.50% | 3.50% to 5.50% |

Investment rate of return 7.5% net of investment expenses

Retirement age Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2014 valuation pursuant to an experience study of the period 2009 - 2013.

Mortality RP-2000 mortality combined healthy tables, projected 20 years with U.S. Projection Scale BB.

Note: GASB 67 was implemented in 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

KALAMAZOO COUNTY EMPLOYEES' RETIREMENT SYSTEM

Required Supplementary Information

Single-employer Defined Benefit Pension Plan

Schedule of Investment Returns

| Year Ended December 31, | Annual Return ⁽¹⁾ |
|----------------------------|---------------------------------|
| 2016 | 13.21% |
| 2015 | -1.71% |
| 2014 | 6.87% |

⁽¹⁾ Annual money-weighted rate of return, net of investment expenses

Note: GASB 67 was implemented in 2014. This schedule is being built prospectively. Ultimately, 10 years of data will be presented.

INTERNAL CONTROL AND COMPLIANCE

This page intentionally left blank.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

June 12, 2017

Kalamazoo County Board of Commissioners
Kalamazoo County Employees' Retirement System
Kalamazoo, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the *Kalamazoo County Employees' Retirement System* (the "System", a pension trust fund of the County of Kalamazoo, Michigan), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated June 12, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rehmann Lobson LLC